

Economic Conditions for the Development of IT&T Services in Lithuania and the Influence of Political Measures in this Area

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We have all seen bar charts which show that Lithuania is lagging behind other countries in terms of Internet use, use of telecommunications and information technologies in GDP, etc. These charts show big boxes for many countries and, often, a little, tiny box for Lithuania somewhere near the end. It is usually presented in a bright colour so that it can be seen. Lithuanian patriots and anyone else with an inquisitive mind must respond to these bar charts with one question - why?

Introduction

It is first worth remembering that information technologies and telecommunications are an economic activity. It is not merely art for the sake of art, no matter how artistic they are. Economic laws say that the major signal in terms of what to produce and how is sent by the buyer, who either buys or refuses to buy products at the offered price. An individual, on the other hand, cannot consume much more than he needs. Good marketing can persuade a consumer to consume slightly more than is needed, and no doubt telecommunications companies are very successful in this field. Nevertheless, the average person will not buy the latest model of a mobile phone or the services which enable him, for example, to check his E-mail if he has neither E-mail, nor a computer, nor a table on which to place the computer.

Let's take a look at the macro level.

The Lithuanian Department of Statistics reports that over the last five years, Lithuania has seen annual GDP growth of 4.5% and average income growth of 8%. Data compiled through a pilot study by the Lithuanian Free Market Institute, however, shows that the income of the population has grown by only 4.7% annually over the last three years. According to Infobalt data, meanwhile, the telecommunications sector has grown by approximately 23% each year within the period in question.

Even if we question some of these figures, it is clear that telecommunications have grown much more quickly than the economy and the average welfare of an individual. What does this mean? It means that people consider these services to be priorities. People renounce their traditional consumption items: they may choose to spend less on leisure, automobiles and other traditional goods in order to enjoy more convenient access to telephone services or the Internet. A typical example occurs when a young person refuses an offer from his parents to send him on a trip upon graduation from school, instead choosing a PC with Internet access. In statistics, this would be recorded as a decrease in household expenditures in the line item "leisure and culture" and a corresponding increase in the line item "communications".

Although the income of people has not been increasing at the same rate as has been the case in the consumption of IT&T services, it is understandable that the suppliers of these services nevertheless wish to accelerate the growth pattern. There are limits to this, however. Investments in education will undoubtedly increase IT&T consumption, especially in the future. The emerging generation has a different understanding of technologies than people who are 50 years old or older today. At first, however, young people have to earn the money that is needed to finance their wishes and capabilities.

Competition in the telecommunications market

Regretful as it is, the telecommunications industry in Lithuania is still partly governed by a monopoly. It is worth recalling, however, that when the Lithuanian Telecom was sold off, many people thought that almost all of the telecommunications market was monopoly-based. Most people did not take mobile communications seriously, and there were no expectations of intensive growth in the mobile communications area. Three years ago or so, people were buying fixed public telephone services in the newly developing areas of Vilnius and its suburbs, hoping to sell them along to neighbours at a price which exceeded the original price by several times over. Mobile communications seemed to remain a luxury forever.

Problems related to Lietuvos Telekomas persist, however, and the termination of its monopoly rights in 2003 will not provide any consolation. Steps must be taken to ease the situation. The first would be to develop a legal framework for the full liberalization of the fixed public telephone network on time and in a

high-quality way. I find that it is far from evident at this time that deadlines will be met in this area, and recent developments in this area have been particularly surprising.

Amendments to the Lithuanian law on telecommunications have been submitted for a second time, and if they are adopted, they will impede the activities of operators and constrain the market. The very fact that such proposals have appeared means that liberalization issues are still on the waiting list. Amendments are likely to be disclosed only at the last moment so that time constraints will be used as a pretext to revise them. Along with best-practice local legislative traditions, liberalization will be followed by a packet of new regulations, such as reporting requirements and the like.

Another current initiative is to establish a major wholesaler for fixed public telephone services on the basis of public money by consolidating the resources which are available to the Lithuanian energy, the Lithuanian Railway and the Television and Radio Committee. It is wishful thinking to believe that this will ensure competitiveness. It doesn't matter if there is one wholesaler or two. What matters is the possibility for a service provider to access the network. The important issue is the terms of competition, not the number of competitors. If there is a merger of these networks, the terms of competition are likely to be ignored, as the focus will be on the implementation of a major national project. Other risks must also be kept in mind, including the temptation not to sell the established network so as to keep subsidizing budget-funded telecommunications users. There will also be the temptation to sell exclusive rights of a new kind along with the network. This will involve the risk of poor management and other things which would reverse the very goal of liberalization.

IT&T policy

Can anything that is inspiring be said in this context?

The policies in question, in fact, are inconsistent in all respects, because something is said and then the opposite is done. Something is planned, and the opposite is implemented. The recent cabinet reshuffles involved changes in the structure of ministries and their staff. There are few people with proper knowledge about public administration in Lithuania, and the number of people among them who know about IT&T administration is even smaller. There is much rhetoric about the Information Society and related issues, but little is done. Either there is a lack of understanding of what all this means or no recognition of the importance of the issue. Judging from what has been done in Lithuania, it seems that agriculture, for instance, is much more important. It's hard to forecast developments in IT&T policy, therefore, even though there are many speeches about its importance and about the idea that our competitiveness, international prestige and level of incoming investments all depend on it. This situation increases business risks and keeps people from buying services and selling their labour force.

It must also be recognized, however, that inconsistencies are common in policies in other sectors, too. Tax policy is one example. Year in and year out, discussions are held about ways to restructure the economy, about the need for modernization, investment and the entry into EU markets, new jobs, etc., but at the same time, politicians are talking about eliminating the tax-free status of investments. Along with subsidies for housing loans, politicians are planning to introduce a real estate tax. The first way to avoid inconsistencies is to develop framework documents - concepts and strategies which are built up on the basis of consensus. Later they become more specific through the adoption of concrete legislation. Nothing of this type has happened in Lithuania. All previous governments have prepared operational programs and action plans, of course, but this has happened without any consideration of strategic planning (the principle of strategic planning was approved in August 2001). Framework documents are still a jumble of unrelated provisions, and even if their tenets are implemented successfully, this does not result in consistent policies.

The past year has been one in which a wealth of strategic documents related to the Information Society have been issued. An Information Society development concept was approved, along with a strategic plan for its implementation. Two competing frameworks for E-government have been worked out, and a conceptual framework for E-business has been approved. Strategic documents alone, however, do not guarantee consistent policies. A strategic document must contain no internal contradictions, and it must be feasible in terms of its implementation. It should also provide for reasonable measures which lead to increased efficiency when put into place. Otherwise, it may well be that the government would be better off by doing nothing.

The aforementioned Information Society concept, sad to say, lacks many of the aforementioned characteristics, and one doubts whether it will really make much of a contribution toward the emergence of consistent policies in this area. One of the two E-government concepts is consistent and could be an appropriate tool for those who want to ensure that E-government policies are transparent and consistent.

However, the adoption of this document is being postponed. Even if adopted, I would be surprised to see it implemented without delay. The E-business document is consistent as well. Lithuania's Information Society development framework contains a chapter on E-business which is completely different from the former document. This leaves open the question of which of the two documents will be used as a primary reference resource.

The aforementioned documents cover information technologies and, in part, telecommunications. Other aspects of telecommunications policy are drafted separately, through amendments to the law on telecommunications, through licensing rules, numbering plans, tax laws and other specific actions. It would be less confusing for everyone if all of this work were consolidated in terms of content and institutions. I would also support the development of telecommunications policy jointly with information technology policy, taking into account that these two areas of activity are closely integrated.

I would also like to make a few observations about institutional disparities. The Lithuanian government has established the Information Society Development Committee, which should theoretically be the coordinating structure for all of the processes that are involved in this area, but the fact is that the Transportation Ministry still controls the development of telecommunications policies. Other aspects of the development of the Information Society are being handled by the Interior Ministry, the Economics Ministry, the Education and Science Ministry, the Justice Ministry and - certainly - the Finance Ministry. It is not unusual for each public authority to be involved with IT&T to one extent or another, but only one public authority should have the right to develop policies in this area. It would be a real miracle if a system without a system ended up developing something that is systematic.

As far as E-government projects are concerned, there is an urgent need to address budgeting principles. Budget funding should be allocated for functions and programs on the basis of measurable objectives. Instead, the government is still developing its budget on the basis of the old principle - money is allocated to institutions and so-called assignment managers on the basis of the previous year's budget. If the principle of program budgeting is not introduced, there is little hope of success in any E-government initiatives. The essence here is that E-government is not the purview of any one institution, and last year's budget didn't contain any money for E-government at all.

What should be done and who should do it?

1. The government should take necessary actions on its part, because business initiatives are dictated by the market;
2. Each ruling party or coalition should determine and explain its IT&T policies;
3. During changes in government, an institution which guarantees at least minimal continuity in IT&T policy must be in place;
4. Program-based budgeting principles must be introduced so as to link planning and funding;
5. The business community must be treated as a partner;
6. It must not be forgotten that IT&T is an economic activity, and regulations in this area, therefore, must retain business freedom, establish competitive environments, and provide favourable terms for investment.